

MICROENTERPRISE STOCKTAKING:
A STATISTICAL LOOK AT
A.I.D.'S MICROENTERPRISE PORTFOLIO

A.I.D. EVALUATION SPECIAL STUDY NO. 63

by

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FOREWORD

During 1988 and 1989, the Agency for International Development (A.I.D.) undertook a major stocktaking of its experience in microenterprise development. The stocktaking examined different approaches and techniques that have been used in efforts to assist microenterprises, including alternative mechanisms for institutional delivery mechanisms. The study was designed to identify the patterns of A.I.D. project interventions that generate success, aiming to establish the most successful programs, institutions, and delivery techniques. It required an examination of different types of microenterprises and an analysis of A.I.D. project approaches to see what works best and under what conditions.

The stocktaking includes a series of studies. First, this statistical review of A.I.D.'s microenterprise portfolio provides a database context for the stocktaking exercise. Second, a conceptual overview paper of published evaluations identifies many factors that are important to project success. The paper develops a conceptual framework for analyzing the types of problems microentrepreneurs face. The stocktaking also includes field assessments of A.I.D. microenterprise assistance projects in 10 countries. These assessments provide an excellent opportunity for development specialists to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stocktaking is a synthesis report, which pulls together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

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SUMMARY

This report provides a multiyear context for the Agency for International Development's (A.I.D.) microenterprise stocktaking exercise. It takes an overall look at A.I.D.'s microenterprise assistance, including information on the magnitude, composition, and organization of the program; the various types of projects being operated; the types of agencies implementing the projects; and the types of services being provided to microentrepreneurs. The report concentrates on financial levels as a means to help explain and classify the projects and the different approaches used in different regions.

This statistical look is based primarily on A.I.D. project design documents available in Washington, D.C. It should be noted that while the information is indicative of general microenterprise trends and of the content of individual projects, the descriptions are statements of anticipated events and not reports of completed projects. Also, while A.I.D./Washington technical assistance and research and development projects are important, this analysis covers only field projects funded by A.I.D. field Missions. It is designed to complement the on-site case studies conducted as part of the broader microenterprise stocktaking evaluation.

The following are major characteristics of the A.I.D. micro-enterprise program:

- In total funding, the program is certainly not "micro." There are at least 87 active field projects or programs, which will spend \$290 million over their total project life. These include projects that focus solely on microenterprises and broader projects that have a micro-enterprise subcomponent.
- About 12 percent of field projects in the microenterprise portfolio (36 percent of funding) focus exclusively on microenterprises. Most field projects also deal with other, broader problems (e.g., finance, private sector development, and private voluntary organizations [PVOs]). Such projects provide assistance to both microenterprises and other types of enterprises.
- While nearly every field project in the microenterprise program includes an institutional development component, only 15 projects (representing 34 percent of funding) focus solely on institutional development. The rest of the program (72 projects) includes some institutional development assistance but concentrates on providing direct benefits and services to entrepreneurs.
- PVOs implement two-thirds of the projects, representing

52 percent of funding. Financial institutions (credit unions and banks) implement 16 percent of the projects, covering 37 percent of funding. Developing country government ministries and agencies directly implement only 4 percent of funding.

- The typical A.I.D. project uses a "full service" approach of credit, technical assistance, and training. That approach is used by 55 of the projects, representing 57 percent of microenterprise funding. Fifteen credit-only projects provide 37 percent of funding. Technical assistance and training alone are provided in 17 projects, representing only 6 percent of funding.

1. BACKGROUND

1.1 The A.I.D. Microenterprise Stocktaking

This report is part of a broader microenterprise stocktaking that is evaluating the Agency for International Development's (A.I.D.) microenterprise assistance program. The stocktaking is designed to identify the scope, coverage, and impact of the existing program in order to discover what types of assistance work best and under what conditions. This paper contributes to the first part of that effort.

A.I.D.'s stocktaking also includes a set of 10 country field studies and a Conceptual Overview, which, along with this statistical report, are drawn together into a final Synthesis Report of lessons learned.

Each of the reports provides different information. This report provides data on the scope and coverage of the A.I.D. microenterprise program; the Conceptual Overview pulls together research and evaluations on microenterprise problems and prospects; the field studies review A.I.D. microenterprise projects in order to identify factors that are important to project success; and the final report synthesizes all of the findings.

It is important to remember that although all the reports share common definitions and approaches, each focuses on a different sample and seeks different answers. This statistical report uses such documents as Annual Budget Submissions and Country Development Strategy Statements to focus on program composition. It relies on project design and budget planning documents available in Washington, D.C., which provide budget plans or projections, but not actual results. This report covers 87 projects. In contrast, the Conceptual Overview and the field studies cover only 32 projects. Because this report covers more countries and more projects, it provides a large sample and a broad context for analysis of A.I.D.'s microenterprise program.

1.2 Sample Selection and Methodology for the Analysis

The sample in this report covers active A.I.D. field projects that either focus on microenterprises or have microenterprise components. (Active projects are those that had an obligation or expenditure in FY 1988 or 1989.) It excludes projects funded by A.I.D./Washington, completed projects, and projects for which all funding obligations have been completed.

Where microenterprises are a component of a larger project, only the value of the microenterprise portion is included. This report uses A.I.D.'s definition of microenterprises--that is, firms with no more than approximately 10 employees. A detailed discussion of the sample selection and methodology appears in Appendix A of this report.

2. SIZE AND COMPOSITION OF A.I.D.'S MICROENTERPRISE PORTFOLIO

The A.I.D. microenterprise portfolio is certainly neither "small" nor "micro." It currently has 87 active field projects with an estimated total life-of-project value of nearly \$290 million (see Table 1). This amount includes \$256 million of dollar-funded projects and at least \$33 million of local currency projects.

Table 1: Microenterprise Funding
by Region

Region	Number of Projects	Life-of-Project Estimates (\$000s)		
		Total	Dollar Funding	Local Currency Funding
Latin America and Caribbean	39	108,603	85,072	23,531
Asia and Near East	21	95,060	87,313	7,747
Africa	<u>27</u>	<u>86,022</u>	<u>83,892</u>	<u>2,130</u>
TOTAL	87	289,685	256,277	33,408

Note: This table and all other tables in this report provide data on A.I.D. field projects in operation during FY 1988 and FY 1989; excluded are central A.I.D. Washington projects.

Depending on when projects are approved, how big they are, and how much forward-funding is involved, year-to-year obligation levels can vary greatly. Total life-of-project funding, therefore, is a more useful statistic for comparison purposes, and it is uniformly used in this paper.

Historically, microenterprise assistance has its deepest roots in the Latin America and Caribbean Region where, over the years, donors have launched programs that have used a number of assistance approaches. As Table 2 shows, the Latin America and Caribbean Region still has the largest number of projects and the highest share of funding as compared with other A.I.D. regions.

Local currency is an important part of the microenterprise program. However, life-of-project local currency funding is often underestimated because the availability of future local currency funding is not always certain when projects are designed. The local currency figures that appear in this report probably underestimate

the actual levels.

The Latin America and Caribbean Region draws heavily on its Economic Support Fund cash transfer and Public Law 480 programs for local currency to fund microenterprise programs. That Region is responsible for the bulk of A.I.D. local currency funding for microenterprise development (see Table 2).

Table 2: Microenterprise Funding by Region
(percentage shares)

Region	Number of Projects	Life-of-Project Estimates		
		Total	Dollar Funding	Local Currency Funding
Latin America and Caribbean	44.8	37.5	33.2	70.4
Asia and Near East	24.2	32.8	34.0	23.2
Africa	<u>31.0</u>	<u>29.7</u>	<u>32.8</u>	<u>6.4</u>
TOTAL	100.0	100.0	100.0	100.0

3. CLASSIFYING THE VARIOUS TYPES OF MICROENTERPRISE ASSISTANCE

3.1 Direct Versus Indirect Assistance

One way of looking at projects is to classify them by the approach they use to reach microentrepreneurs. Some work directly with microenterprises, while others reach microenterprises as part of a broader effort. Projects using the direct approach provide specific services and inputs to microenterprises. Projects using the indirect approach work to improve the microenterprise environment--for example, supporting institutions, financial and product markets, private sector incentives, and the investment climate.

As Table 3 shows, projects that focus exclusively on microenterprises are the exception rather than the rule. There are only 10 such projects, and they represent only 12 percent of total microenterprise funding. These direct projects tend to be newer; most were implemented in the last few years.

The remaining 88 percent of funding flows through various indirect mechanisms. Within those indirect approaches, the largest (representing one-third of the projects and one-third of funding) are projects that focus on private sector development. These also tend to be newer projects; most were started in the last 4-5 years. Such projects target entrepreneurs, including--but not only--microentrepreneurs. The projects are designed to improve the capabilities, access, and opportunities of the private sector. Since small enterprises and microenterprises make up the vast majority of the private sector in almost every developing country, such projects can have important benefits for microentrepreneurs.

"Umbrella" projects are A.I.D. projects in which funds are provided to one organization or a group coordinator that in turn provides financial and organizational support to a variety of private voluntary organizations (PVOs). Umbrella projects seek to upgrade, improve, and coordinate PVO efforts. The projects in this category all have an important microenterprise component, though it is usually not the major purpose of the project. Umbrella projects represent 23 percent of microenterprise projects and 17 percent of microenterprise funding.

Another indirect way in which microenterprise assistance is often provided is as a discrete subcomponent of broader regional or community development projects. Such projects address a number of developmental constraints, with microenterprise assistance usually being only one part of the total effort. Such components, which represent 23 percent of the projects and 13 percent of total funding, tend to be older efforts, dating from the 1970s and early 1980s.

Table 3: Microenterprise Project Classification, by Percent of Projects and Percent of Funding

Project Type/ Classification	Number of Projects	Life-of-Project Estimates		
		Percent	Dollar Amt. (\$000s)	Percent
Direct Assistance				
Microenterprise Only	10	11.5	35,712	12.3
Indirect Assistance				
Private Sector Development	29	33.3	98,718	34.1
Umbrella project	20	23.0	50,100	17.3
Component of an Integrated Project	20	23.0	38,542	13.3
Financial Institutions	<u>8</u>	<u>9.2</u>	<u>66,613</u>	<u>23.0</u>
TOTAL	87	100.0	289,685	100.0

Local currency amounts included.

The fourth and last indirect assistance approach covers projects that focus on the development of financial institutions, including projects designed to improve organization and management techniques and skills. Such projects provide the bulk of their assistance to microenterprises but also support other types of firms. Only 8 projects are included in this category, but they make up some 23 percent of total funding. (A detailed breakdown of these data by region appears in Table B-1, Appendix B.)

3.2 Regional Variations

There are regional variations in the use of the various approaches. Nine of the 10 "microenterprise only" projects are in the Latin America and Caribbean Region. The majority of the "component" projects are located in Africa and Asia. In the Latin America and Caribbean Region, the umbrella project category generally means projects that fund intermediary organizations that provide managerial and financial support to a group of individual PVOs. In Haiti and most of the rest of the world, these umbrella projects are funded by PVO co-financing programs.

Funding of "financial institutions" projects is divided

equally among all A.I.D. regions. They provide support to credit union federations, savings mobilization projects, and similar financial services projects. While these projects account for less than 10 percent of the total projects surveyed, they represent 23 percent of total funds. One project, the Indonesia Financial Institutions Development project, accounts for one third of the total funding in this category.

3.3 Institutional Development Versus Service Delivery

The ultimate goal of any microenterprise project is to increase income and employment by providing needed inputs and services. To do this usually requires the development of an institution with the capability to deliver the needed inputs or services to entrepreneurs. While all projects have an institutional development component, some projects focus exclusively on this factor. As Table 4 shows, only 15 projects, representing 36 percent of total funding, are institutional development projects. The primary purpose of those projects is to develop institutional capability rather than to deliver services directly to entrepreneurs. The institutions supported are usually national in scope and include PVO umbrella organizations, financial institutions, cooperative federations, and research organizations. A number of these institutional development projects extend credit funds, but the emphasis of these projects is on staff training and development.

The remaining 72 projects, representing about 64 percent of funding, provide entrepreneurial services and assistance. In order to deliver those services and to become sustainable, such projects include an institutional development component, but not as the primary objective. It is a means rather than an end. In contrast, in the institutional development projects, institutionalization is the end, not the means. (Table B-2 in Appendix B provides detailed regional data.)

Table 4: Microenterprise Assistance Project Focus

Project Focus	Number of Projects	Life-of-Project Estimates		
		Percent	Dollar Amt. (\$000s)	Percent
Institutional Development	15	17.2	103,119	35.6
Entrepreneurial Assistance	<u>72</u>	<u>82.8</u>	<u>185,566</u>	<u>64.4</u>
TOTAL	87	100.0	289,685	100.0

Local currency amounts included.

3.4 Type of Implementing Agency

Few projects are fully implemented by a single organization. Even for the simplest project, implemented by an indigenous PVO, local implementers often work closely with a government ministry and receive technical assistance from a U.S. PVO. At the same time, even though a project may receive inputs from a number of organizations, it is usually managed by one organization. As Table 5 shows, PVOs administer two-thirds of the microenterprise projects, representing 52 percent of total funding. Projects implemented by financial institutions (banks and credit unions) make up 37 percent of funding through 14 projects. The remaining projects are implemented by government ministries or by various other types of agencies. (Table B-3 in Appendix B provides a regional breakdown of these data.)

The heavy contribution by PVOs reflects their long history and ability to serve the needs of low-income people. In contrast, the number of financial agency microenterprise projects much smaller.

Two strong ideals motivate those assisting microenterprises--poverty alleviation and business development. PVOs most frequently go into extremely poor slums and rural areas to directly improve the lot of the poor. They reflect the first objective, that of poverty alleviation. Others who also wish to help the poor but see the solution as one of improving business and employment prospects concentrate on financial markets and institutions. The banks and credit unions represent the second motivation, that of business development as a means to help the poor. While it may be risky to overgeneralize about motivations, the fact that the A.I.D. portfolio is weighted toward PVOs seems to indicate that poverty alleviation may be the greater force in A.I.D.'s microenterprise assistance program.

Table 5: Microenterprise Project Implementing Agencies

Implementing Agency	Number of Projects	Life-of-Project Estimates		
		Percent	Dollar Amt. (\$000s)	Percent
PVO	58	66.7	150,750	52.0
Government	6	6.9	11,824	4.0
Financial	14	16.1	106,959	36.9
Mixed	<u>9</u>	<u>10.3</u>	<u>20,152</u>	<u>7.0</u>
TOTAL	87	100.0	289,685	100.0

Note: PVO = private voluntary organization

Local currency amounts included.

3.5 Types of Services Provided to Microenterprises

As Table 6 shows, most projects (55 out of 87) provide a full range of services to microentrepreneurs--credit, technical assistance, and training. Thus if there is a "standard" approach, it is the full-service type of project. Full-service projects represent 63 percent of the total number of projects and 57 percent of total funding. In contrast, only 15 projects, or 17 percent of the total, provide credit only, but these projects represent a significant share of funds--37 percent of total funding. Only 17 projects provide just technical assistance training. They represent a very minor part of the portfolio--only 6 percent of total funding. (Table B-4 in Appendix B provides a regional breakdown of these data.)

Table 6: Services Provided to Microenterprises

Services	Number of Projects	Life-of-Project Estimates		
		Percent	Dollar Amt. (\$000s)	Percent
Credit, Technical Assistance, and Training	55	63.2	164,925	57.0
Technical Assistance and Training Only	17	79.5	17,201	5.9

Credit Only	<u>15</u>	<u>17.3</u>	<u>107,559</u>	<u>37.1</u>
TOTAL	87	100.0	289,685	100.0

Local currency amounts included.

4. CONCLUDING POINTS

This background paper has provided data on the magnitude, composition, and organization of the A.I.D. microenterprise program. The following paragraphs briefly summarize the main points of the paper.

- Dollar funding by each of the three regions is very similar, with each accounting for about one-third of the budget. However, the situation is quite different with regard to local currency, with the Latin America and Caribbean Region accounting for the bulk of funding.
- Assistance that focuses exclusively on microenterprises is only a small part of the total program. Most assistance is aimed at broader problems that affect microenterprises as well as other firms, such as finance, training, private sector development, tax and customs policies, regional development, and institutional development.
- Roughly two-thirds of microenterprise projects focus delivering services or entrepreneurial assistance to microenterprises. The remaining one-third of A.I.D. assistance projects focus primarily on institutional development.
- PVOs implement more than half of A.I.D.'s microenterprise projects.
- Credionly projects represent 37 percent of project funding. The remainder of the funding goes to projects that provide credit, technical assistance, and training, or just technical assistance and training.

APPENDIX A

METHODOLOGY

1. Definition of a Microenterprise

A.I.D. Policy Determination No. 17 defines a microenterprise as any firm with no more than approximately 10 employees and with characteristics (assets, revenue, and so on) that place it within A.I.D.'s microenterprise assistance objectives. Those objectives are designed to target assistance to individuals in the poorest 50 percent of the population, to businesses owned by women, and to businesses owned and operated by the poorest 20 percent of the population. The definition embraces a broad spectrum of labor-intensive activities, both urban- and rural-based, including agribusiness, handicraft production, trading, and service and manufacturing enterprises.

2. Sample Selection and Methodology

For this analysis, the first step was to select a representative group of projects, and that process involved a number of questions. Should the examination include projects that focus solely on microenterprises, or should it also include projects that have another objective but include a microenterprise subcomponent? Should it include local currency-funded projects as well as dollar-funded projects? What time period should be covered? Should the sample cover all new projects, all currently active projects, all completed projects, or all projects that have been implemented over the last 10, 15, or 20 years?

One way of viewing A.I.D.'s portfolio would be to examine all budget obligations for one year. That would provide a sample of all new projects and would indicate the types of new projects that A.I.D. funds in a year. However, the project approval process is often uneven among years and among countries. A large project might be approved in a country, and then another one might not be approved for some years. The data for only one year might not be representative of levels, types of projects, and regional distribution.

It makes more sense, therefore, to look at the microenterprise program over a number of years. However, since the level of microenterprise funding has been increasing and the new projects reflect new and innovative approaches, it probably does not make sense to go back too far in time. An analysis of A.I.D.'s microenterprise portfolio over the last 10 years would be interesting but would not fully reflect current conditions.

The examination would need to cover a period longer than just the current year, but it should not include too many older projects.

In order to cover all bases it was decided that all currently active projects would be examined, that is, projects with an obligation or expenditure in FY 1988 or FY 1989, including new projects and those that have been operating for several years. An advantage of including such projects is the availability of evaluations and of a series of actual expenditure results. Another advantage is that the older projects of the 1960s and 1970s, which are much less relevant to the problems of the 1980s, were excluded.

The typical A.I.D. project is implemented over a 3 to 5 year period, and A.I.D. has some flexibility on the timing of the funding obligations. For example, for a 5-year project, A.I.D. could obligate the total amount in the first year or it could obligate a portion in the first year and provide incremental obligations in latter years. No matter how it is done, the life-of-project funding total is the same, but A.I.D. obligation data can swing up or down depending on how many new projects are being approved and how many years of funding are being obligated in any one year. Therefore, in order to best understand A.I.D.'s microenterprise program, it is important to look at the total life-of-project obligations level. (The life-of-project value is the total amount that will be obligated on each project during its total implementation period.)

An added complication in this process is that it is easier to estimate life-of-project dollar-funded microenterprise assistance than to estimate local currency-funded assistance. When A.I.D. dollar-funded projects are obligated, there is an accurate estimated life-of-project budget that can serve as a basis for analysis. However, since local currency projects are usually funded on a year-to-year basis, there is often only a partial estimate of the total future budget. This situation means that total life-of-project funding for local currency projects is often underestimated. In spite of this difficulty, it was decided that both dollar- and local currency-funded projects would be included in the present study.

A thorough examination of the A.I.D. database, Congressional Presentations, and Annual Budget Submissions for FY 1988 and 1989 yielded a list of over 200 projects that had some microenterprise component. The definition and criteria described above were applied to weed out inappropriate projects. Projects that were clearly limited to agricultural development and those in which the benefits were very indirect were eliminated. Also, since this statistical study is part of a larger stocktaking evaluation, which focuses on identifying the factors related to successful project performance, it was decided to follow the same criteria used in that study: that is, to include only projects that deliver services or inputs to microentrepreneurs and thus to exclude centrally funded research and development projects.

What was left were all field projects that had microenterprise

support as one of the project objectives. In order to make sure that no projects were missed, a wide range of projects with broader objectives than just microenterprise support was reviewed. Generally, if microentrepreneurs were explicitly targeted and a substantial number of them were reached in the course of project implementation, the project was included in the database for this analysis. If the project included assistance to both microenterprises and other types of enterprises, only the funding allocated to microenterprises was included. The final database consisted of 87 projects.

The following reports on related topics are available from CDIE:

A.I.D. Microenterprise Stocktaking: Synthesis Report, A.I.D. Special Study, forthcoming.

Taking Stock of A.I.D.'s Microenterprise Portfolio: Background and Conceptual Overview, A.I.D. Special Study, forthcoming.

A.I.D.'s Microenterprise Stocktaking: Malawi Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Senegal Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Guatemala Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Cameroon Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Dominican Republic Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Paraguay Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Ecuador Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Bangladesh Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Indonesia Field Assessment, Occasional Paper, July 1989.

A.I.D.'s Microenterprise Stocktaking: Egypt Field Assessment, Occasional Paper, July 1989.